

CITY AUDITOR'S OFFICE



AUDIT OF CITY CELL PHONE CHARGES

Report No. CAO 2005-0607-10

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BACKGROUND

Cellular phones increase productivity and have become as important as desk phones. The cost of cellular service is steadily rising and is now approximately \$625,000 per year for the City of Las Vegas.

City policy allows for limited personal calls with reimbursement to the City. Information Technologies (IT) developed and implemented the City's Phone System which simplified the payment process for personal cellular calls and was a major development in providing a monitoring mechanism over cell phone usage. Detail call information is provided by the vendors and entered into the Phone System. The Phone System can provide information for management's control over phone usage and costs.

Cell phone usage is governed by:

- Communications Equipment Policy (IT121.3) and Procedures (IT121a.3)
- Information Resources Use Policy (IT136)
- Operations Manual Financial Personal Reimbursement (F.17)
- Personnel Policies Manual Health / Safety City Property, Security, Privacy and Searches (9.06).

There are 411 mobile internet access devices. The City pays a monthly fee for unlimited use on these internet access phone numbers. The City's Phone System assigns a cost per minute of use regardless of voice or data communication. The City's Phone System was the data source for the audit. There were no audit adjustments to the data from the City's Phone System. Audit testing was based on all the data from the City's Phone System.

OBJECTIVE

Our objectives in completing the audit of city cell phone charges were to determine if:

- Current policies and procedures have been established in accordance with applicable guidelines.
- Management controls are adequate and operating as intended.
- Monitoring procedures are in place to prevent abuses.

SCOPE AND METHODOLOGY

The scope of our audit included reviewing all cell phone records maintained in the City's Phone System for the period July 1, 2004 to June 30, 2006. Over 1.2 million Provider 1 cell phones records and over 850 thousand Provider 2 cell phones records were tested and reviewed for the two fiscal years.

Our fieldwork was performed in accordance with generally accepted governmental auditing standards. Procedures included:

- Interviewing applicable city personnel
- Researching applicable policies, procedures, regulations and guidelines
- Performing various audit data extracts and analysis of data
- Testing established management controls

FINDINGS AND RECOMMENDATIONS

Our audit identified issues management should address relating to the enhancement of controls over a cell phone monitoring program. The issues are summarized in the following sections. There were other issues identified and discussed with management, they were deemed less significant for reporting purposes. Management has agreed to undertake a process that will provide line management with the needed tools for monitoring cell phone assignments and usage.

1. Inventory Assignment and Accountability

Criteria:

Procedures state accountability: Managing the inventory, issuance, usage, return, replacement, and repair of communications equipment. (IT121a.3)

Condition:

The Phone System was created because of a need to automate the manual procedures and to begin to provide management with the ability to automate oversight control procedures. Inventory records are the first step in the oversight process. Over time inventory records have become less accurate because updated information is dependent on information being received from various sources in a timely and accurate manner.

During the audit the validation of inventory information was undertaken. Various sources of information were reviewed and compared to determine the reliability of the information.

Numerous differences in information were noted. These differences reduce the level of confidence in the complete reliability of inventory information.

Some of the reasons for the differences could be:

- Inactive phones never being deleted from inventory
- Active phones the City is paying but never added to the inventory
- Errors caused by the vendor
- Change information not being provided in a timely and accurate manner

Dependable inventory records are needed for the validation of phone assignment. The ability to assign accountability over cell phone usage is the first step in any management monitoring program. Call usage on unassigned cell phones is open to possible abuse by anyone having access to the phone. There are 456 cell phones, not assigned to a specific individual.

Out of 642 Provider 1 phones there are 242 phones, 37.6%, having no accountability for personal calls made from them. They are assigned to a non person (such as City Hall, Fire, etc). The above total does not include multiple phones numbers to one individual (such as; wireless internet card is a separate number, special project, etc).

Out of 522 Provider 2 phones there are 214 phones, 40.9%, having no accountability for personal calls made from them. They are assigned to a non person (such as City Hall, Fire, etc). The above total does not include multiple phones numbers to one individual (such as; wireless internet card is a separate number, special project, etc).

Cause:

Without a periodic inventory and comparison to other information sources there are no assurances that all information was received and updated in a proper and timely manner.

Effect:

A reliable and update inventory listing is the central control to validate activity relating to cell phones. Without it inaccuracy in vendor billing can go unnoticed. Without reliable and valid inventory information any conclusions could be subject to question.

Recommendation:

1. Better inventory control procedures are needed. Better inventory controls can be started by:

- a) Performing a complete physical inventory to validate that the Phone System records are accurate and current.
- b) A periodic comparison between the vendor information and the Phone System to verify that the City is not being charged for phones not being used.
- c) All cell phones should be assigned to an individual in order to have accountability over monthly calls and expenses. Assignment to an individual should be made to as many phones as possible.

2. Business or Personal Call Accountability

Criteria:

Policy and procedures states:

Property and services provided or paid by the City are to be used for city business purposes. Personal business usage is minimal and incidental. (IT121.3)

Employees issued long distance access codes and /or using cell phones shall review phone call usage on a monthly basis and reimburse the City through payroll deduction for any costs incurred as a result of personal use. (IT121.3)

Use of cellular phones to place long distance calls should be restricted to times when a landline is not available. (IT121.3)

Condition:

City policy states personal long distance calls can be made provided they are "reasonable" and reimbursement is made to the City for the calls. There are no guidelines as to the definition of reasonable calls.

1. The following findings were from over two million phone records reviewed, from the Phone System. The records covered fiscal year 2005 and fiscal year 2006 data (Provider 1 1,213,358 records and Provider 2 852,388 records).

Provider 1 – Calls Identified as Business or Personal

	Call Count	Percentage	Call Length	Percentage
Totals	1,213,358		2,729,772	
Personal	141,790	11.7 %	355,346	13.0 %
Business	1,071,568	88.3 %	2,374,426	87.0 %

The majority of cell phone calls were classified as business by employees.

Provider 2 – Calls Identified as Business or Personal

	Call Count	Percentage	Call Length	Percentage
Totals	852,388		2,051,586	
Personal	92,018	10.8 %	251,844	12.3 %
Business	760,370	89.2 %	1,799,741	87.7 %

The majority of cell phone calls were classified as business by employees.

During detail audit analysis, it was determine that all personal calls were not being properly reported. There were 8,338 paired numbers found. A paired number, from the same cell phone, is one where the same called number was reported as both a personal call and other times the same number called was reported as a business call. The call is either business or personal, but not both. This indicates that employees are incorrectly reporting calls.

2. Reimbursement of personal calls is charged a blended rate of six cent per minute which does not cover the actual cost of cellular service. The blended rate covers 3.7% of the Provider 1 cost but personal calls use 13.0% of total minutes used. The blended rate covers 3.9% of the Provider 2 cost but personal calls use 12.3% of total minutes used. The cost of cell phones is the same for both local and long distance minutes.
3. Without an ongoing usage monitoring program it is not possible to determine if City assets are being used in the most productive manner. The audit review indicated that management must increase review. Tested for cell phones with high usage. Selected usage of 7,000 minutes or more, as the cutoff amount during the audit period.
 - There were 125 Provider 1 users with over 7,000 minutes spent on the cell phone. The highest single user had 23,131 calls using 51,429 minutes, which averages out to 98.9 minutes per work day. (This includes internet data communication calls.)
 - There were 95 Provider 2 users with over 7,000 minutes spent on the cell phone. The highest single user had 12,574 calls using 40,795 minutes; which averages out to 78.5 minutes per work day. (This includes internet data communication calls.)
4. Current written policy states long distance landline must be used. If this stays the policy the requirement must be communicated to employees. If more long distance calls are made from the desk phones the cell phone long distance expense to the City would be reduced. It is far less expensive to use desk phone long distance than the expense of using cell phones for long distance. The City gets a huge discount on long distance calls from desk phones. Also there is no possibility of overages charges as there are with cell phones.

Cause:

There has been no establishment of an ongoing control review program over cell phone usage.

Effect:

Without an effective monitoring program there are opportunities for abuse of the system.

The only monitoring performed is to make sure that each individual reviews their monthly phone bill for business and personal calls. This current program does not provide adequate assurances that possible abuses are not taking place. The City could be inappropriately paying for employees' personal calls.

- If a strong monitoring program was put into place, that employees are made aware of, the deterrence factor would increase and more accurate reporting of call type by employees would take place.
- Without an active and ongoing monitoring program there is no means of telling if all personal calls are reported and reimbursement is being made.
- Without an effective monitoring program to uncover possible discrepancies the City could be incurring needless costs.

Recommendations:

1. Management should establish a control system for ongoing monitoring of cell phone usage. Cell phone costs are based on total usage, both local and long distance are billed the same. If employees were encouraged to use desk phones, where possible, overage charges could be significantly reduced.
2. Management should increase the reimbursement rate for personal calls made on cell phones. A higher reimbursement rate would provide actual cost recovery and it would most likely reduce the number of personal calls on cell phones. With less usage the City's cell phone bill should be reduced.

3. Cell Phone Plans

Criteria:

City resources are to be spent in a cost effective manner.

Condition:

The expense of cell phones has been increasing with time. There are 1,114 cell phone numbers which cost the City of Las Vegas approximately \$52,000 per month. Between the vendors there are multiple cell phone plans which the employee can select from.

Over 91% of the Provider 1 cell phone being used cost the City over \$40 per month, with 16.2% of cell phones costing the City over \$100 per month. 75% of the Provider 1 plans cost between \$40 and \$99.99 for the basic monthly access charge.

Over 44.5% of the Provider 2 cell phone being used cost the City over \$50 per month, with 2.6% of the users costing the City over \$100 per month. 75.9% of the Provider 2 plans cost between \$25 and \$99.99 for the basic monthly access charge.

There has not been a study to determine the correlation between usage and monthly plan costs.

Cause:

Each user is allowed to have any type of cell plan provided the employee's manager approves the purchase.

Effect:

The ability to get any type of plan, adds to the difficulty of monitoring and controlling cell phone expenses. The plans all have different features, usage limits and expenses. For control purposes the number of plans which can be selected should be reduced so there is a better means of monitoring the cell phone usage.

Recommendation:

1. Management must reduce the cell phone plan choices for easier and better control monitoring. There should be a review to determine the needs of each cell phone user to determine which plan best serves the need of the City and the end user at the least cost.

4. Cell Phone Usage

Criteria:

City resources are to be spent in a cost effective manner.

Condition:

Cell phones are a productivity tool if used correctly. Additional steps to monitor usage to assure productivity should be started. The audit review showed:

1. A review of data from July 2004 to June 2006 showed that:
 - The 100 most used Provider 1 cell phone numbers spent between 3.7 and 21.4 workweeks on the cell phone.
 - The 100 most used Provider 2 cell phone numbers spent between 2.8 and 17.0 workweeks on the cell phone.(These include internet data communication calls.)
2. A review of one month bill for both Provider 1 and Provider 2 found many cell phones with no minutes used during the month reviewed.
 - Found 206 Provider 1 cell phones, costing \$10,566, with no minutes used in June, 2006
 - Found 141 Provider 2 cell phones, costing \$3,451, with no minutes used in May, 2006

This underutilization of cell phones, over time, could amount to significant dollars.

3. There are other cell phone usage charges that add to the City costs. Those charges include a variety of fees charged on the monthly vendor bills. While those miscellaneous / other charges appear to be small in comparison to the monthly bill total, on a yearly basis they add to over \$6,000 and may include third party billing, ring tones, joke of the day or even 900 or 888 numbers: Provider 1 averages \$315 per month and Provider 2 averages \$191 per month. These fees do not include usage overage fees, directory assistance and other stated fees.
4. The vendor's bills have a general category called "usage charges" which contains all fees over and above plan charges not covered by the "access charges". These fees average approximately \$583 per month for Provider 2 and \$2,364 for Provider 1. These other fees amount to approximately \$36,000 per year for the cell phones. These charges indicate cell phone users are going over the monthly allocation of minutes.

Cause:

There is no activate ongoing review program to determine if total cell phone costs can be reduced by better monitoring over cell phone usage and the associated miscellaneous costs.

Effect:

The City may be over paying thousands of dollars on a yearly basis.

Recommendation:

Management must begin to gain control over the increasing cost of cell phone. This process can be started by:

1. Requiring that all new cell phone requests be accompanied by a questionnaire to determine the user needs. This questionnaire would be the basis for the assignment of the cell phone plan, which meets the user needs at the least cost to the City.
2. There should be a questionnaire sent to all current cell users to determine if the cell phone plan they have meets their needs. The completed questionnaire would form the basis to begin to control the increasing costs, since cell phone plans could be better matched with actual cell phones usage.

This study will determine whether expenses could be cut without loss of productivity associated with cell phones. This could also address the issue of users going over their monthly allocation of minutes.

MANAGEMENT RESPONSES

1. Inventory Assignment and Accountability

Recommendation:

Better inventory control procedures are needed. Better inventory controls can be started by:

- a) Performing a complete physical inventory to validate that the Phone System records are accurate and current.
- b) A periodic comparison between the vendor information and the Phone System to verify that the City is not being charged for phones not being used.
- c) All cell phones should be assigned to an individual in order to have accountability over monthly calls and expenses. Assignment to an individual should be made to as many phones as possible.

Management Plan of Action:

- a) **Response:** A departmental list of cellular devices will be produced from the Phone System and distributed to each department for their review and validation of use, assignment and need. The information gathered from this review will be used to identify the correct disposition of each device and update the Phone System records.

Estimated Date of Completion: 10-05-2007

Management Plan of Action:

- b) **Response:** This is currently being accomplished by a monthly bill review by the Accounts Payable section of Finance and Business Services. Any differences are addressed with the vendor. The system provides an exception report of any items that are billed by the vendor but not in the phone database. If an exception kicks out, we don't pay it until it is confirmed to be a valid bill.

Estimated Date of Completion: Completed

Management Plan of Action:

- c) **Response:** A departmental list of cellular devices will be produced from the Phone System and distributed to each department for their review and validation of use, assignment and need. The information gathered from this

review will be used to identify the correct disposition of each device and update the Phone System records.

Estimated Date of Completion: 10-05-2007

2. Business or Personal Call Accountability

Recommendation:

1. Management should establish a control system for ongoing monitoring of cell phone usage. Cell phone costs are based on total usage, both local and long distance are billed the same. If employees were encouraged to use desk phones, where possible, overage charges could be significantly reduced.
2. Management should increase the reimbursement rate for personal calls made on cell phones. A higher reimbursement rate would provide actual cost recovery and it would most likely reduce the number of personal calls on cell phones. With less usage the City's cell phone bill should be reduced.

Management Plan of Action:

Response to 1: All cell phones will be placed in a pooled minutes plan with each vendor eliminating any overage charges. Reminders about City policy and suggested alternatives practices will be distributed to users.

Estimated Date of Completion: 08-03-2007

Management Plan of Action:

Response to 2: Industry charge plan standard rates will be reviewed for a possible adjustment.

Estimated Date of Completion: 07-31-2007

3. Cell Phone Plans

Recommendation:

Management must reduce the cell phone plan choices for easier and better control monitoring. There should be a review to determine the needs of each cell phone user to determine which plan best serves the need of the City and the end user at the least cost.

Management Plan of Action:

Response: We have met with the vendors and are consolidating the plans so we will have one pooled plan for each vendor. We will have 5 different prices for each vendor Basic plan without PDA and with PDA, advanced plan without PDA and with PDA and wireless data card. This will allow for an easier review of vendor bills. Additionally, we will be having quarterly reviews with each vendor to ensure all phones are on the correct plan. Users will not need to make plan choice. Results of the departmental inventory survey will be used to determine the proper plan distributions.

IT and Finance have met and are planning on transitioning the billing process from direct cost to the user to a single standard price to users for each type of service through the Communications ISF.

Estimated Date of Completion: 07-02-2007

4. Cell Phone Usage

Recommendation:

Management must begin to gain control over the increasing cost of cell phone. This process can be started by:

1. Requiring that all new cell phone requests be accompanied by a questionnaire to determine the user needs. This questionnaire would be the basis for the assignment of the cell phone plan, which meets the user needs at the least cost to the City.
2. There should be questionnaire sent to all current cell users to determine if the cell phone plan they have meets their needs. The completed questionnaire would form the basis to begin to control the increasing costs, since cell phone plans could be better matched with actual cell phones usage.

This study will determine were expenses could be cut without loss of productivity associated with cell phones. This could also address the issue of users going over their month allocation of minutes.

Management Plan of Action:

Response to 1: The current process requires department approval before a cell phone is issued. IT along with Finance and Business Services will monitor the distribution of phones in the pooled plans for cost effectiveness.

Estimated Date of Completion: 07-02-2007 then ongoing quarterly

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Management Plan of Action:

Response to 2: A departmental list of cellular devices will be produced from the Phone System and distributed to each department for their review and validation of use, assignment and need. The information gathered from this review will be used to identify the correct disposition of each device.

Estimated Date of Completion: 10-05-2007